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The Politics of Independence and Bureaucracy: Approaching the Policy Making of the European Central Bank

Abstract: The explorative paper approaches the politics of Central Banking in the European Monetary Union (EMU). Therefore, it presents a theoretical framework for the analysis of the politics of European central banking and delivers first empirical evidence with regard to the multi-level governance framework of the EMU. The paper refers to a nouvelle data set on individual characteristics of all Members of the Executive Board of the European Central Bank (ECB) since its establishment in 1998. While accounting for individual appointment characteristics, the institutional structures of EMU and the interests of the respective appointing actors, the paper develops generalizable insights to the politics of independence and bureaucracy behind legally independent European monetary policy. The paper closes with a discussion of the findings and an outlook on future research. Comments are appreciated!

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## 1. Approaching the topic

During the recent somehow turbulent years, the European Central Bank (ECB) has evolved to be among the most important actors in European politics. Previously, the ECB as an institution of the European Union was exclusively in charge of conducting monetary policy. Therefore, the Treaty on the Functioning of the European Union (TFEU) defined a relatively narrow mandate: to maintain price stability as the primary objective of the ECB (Article 127, 1 TFEU). Only "without prejudice to the objective of price stability", the ECB shall "support the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union". These include inter alia "full employment" and "balanced economic growth" (ibid.). However, the perception of the mandate of the institution and the delegated tasks to it expanded remarkably.

From a rather political perspective it is remarkable that competences for far reaching decisions are delegated to an organization that operates basically independent from democratic procedures. Actually, the ECB is even regarded as being the "most independent central bank in the world" (e.g. Heine/Herr 2008: 52). This is due to its considerably personal, financial, target- and operational independence. Subsequently, the members of the ECB's Executive Board are personally appointed for eight years, so that they enjoy relatively long office periods. These shall secure their independence from short-term turbulences (such as democratic elections). The ECB is financially independent since it generates its own budget by maintaining a share of its revenues. Regarding its mandate to maintain price stability (TFEU 127), the central bank itself can define this target quantitatively as well as qualitatively. Further, the ECB can choose independently the appropriate monetary instruments to approach the target. Furthermore, two unique features underline the ECB's outstanding independence: (1) the public monetary financing prohibition (TFEU 123) that secures its independence from fiscal demands and (2) the fact that its legal independence is settled in the Treaty, so that adjustments would require unanimity along the European Union (EU) member states.

Central bank independence is traditionally reasoned to sustain inflation rates on a low level (Blinder 1999: 53 pp). At least before the most recent financial meltdown, there was a huge consensus especially among economists stating that monetary policy performs best when delegated except reach from politicians and given the legal obligation to maintain price stability (Cukiermann 2013: 374). Since macroeconomics commonly assume a trade-off between inflation and unemployment (fundamentally Phillips 1958 and Samuelson/Solow 1960), policy makers may be confronted with demands to use monetary policy instruments to stimulate the economy (Alesina/Tabellini 2007; 2008). However, since the great inflation/high unemployment periods of the 1970s enforced the neo-classical view stating that money is neutral in the long-run (Friedman 1968), the relationship between inflation and unemployment is commonly regarded as short-term stable but long-term invalid (Mankiw 2004: 855f). Since actors are expected taking future decisions according to their inflation estimations (notably labor union wage-demands), monetary instruments may stimulate the economy in the short run, but can induce increasing inflation rates without positive employment effects in the long run. Consequently, the assumed inverse relationship of the

degree of central bank independence and sustainable low inflation rates was confirmed by several studies in time-space comparisons (Alesina/Stella 2010: 16 pp). In this climate, central banks became legally independent institutions basically all over the world (Marcussen 2005). However, since monetary policy has increasingly serious (re-)distributive effects, questions on the politics of monetary policy deserve closer attention.

## 2. Politics of Monetary Policy: Research and Research Questions

Research on monetary institutions was somehow neglected in political science while broadly leaving the topic to economists. However, existing studies on the politics of monetary policy in political science can broadly be distinguished according to their levels of analysis. First, approaches focussing on the political process by typically examining the actors involved and examining the institutional structure of one country. Among these studies is the classical study Wooley (1984), who analyses the Federal Reserve and the politics of monetary policy in the US. By examining diverse channels of political influence in the 1970s, the author finds that especially the president and the congress can influence monetary policy by selecting the policy makers as well as by signalling own policy preferences accompanied by threats to change the central bank's institutional mandate. Considering the traditionally outstanding independent mandate of the Deutsche Bundesbank, Lohmann (1998) finds similar results for the influence of party politics on monetary policy given the German structure of federalism.

A second focus of research typically concentrated on the institutionalisation of monetary policy regimes and respective institutional changes over time. Classical studies focussed on the emergence of independent central banks that have a primary focus on low inflation and price stability. For instance, by examining the societal actors and their ability to form coalitions to induce legislative change in parliamentary democracies, Goodmann (1991) argues, that central bank independence is more likely to be established and maintained in states where a strong coalition among the financial industry and capital supports low inflation and price stability. Given central bank independence mainly institutionalised, Quaglia (2005) propounds a "three-ladder approach" to account for still diverging development paths of central banks. By referring to the way domestic coalitions of interest groups interpret international economic developments, their ability to overcome potential veto-players and their power to transform their interests into central bank reforms, along the expertise of the central bankers themselves, the author explains the different legislative pathways of central banks and remaining institutional divergences among selected developed countries. Focussing on the interests and strategy of the ECB as an actor towards its own institutional mandate, research suggests that the Central Bank behaves as a *normal bureaucracy*, trying to expand competences while staying at the same time in line with its remit and objectives (Quaglia 2009: 636; and 2008).

Thirdly, studies focus on the monetary policy makers themselves. Thereby, central bankers are often described as technocratic elite or even in terms of a sacerdotal community (Greider 1989, Woodward 2000; Irwin 2013). However, Hallerberg and Wehner (2013) examine the technical competence of monetary policy makers (among others), considering their training in economics. The authors find support for partisan differences in the appointing structure. Testing for party affiliation of individual central bank governor and their tenure, Enns

Jedenatik (2014) finds that having affiliation with a party represented in the government has a strong positive effect on governor survival. Hix et al (2010) use spatial voting analysis to distinguish between monetary hawks and doves among the Members of the Monetary Policy Committee (MPC) of the Bank of England. The authors find strong support that the British government has been able to move the position of the median voter on the MPC through appointments, highlighting the importance of this channel for politics. Since research on policy makers in other fields suggests that political leaders' profession and education has an effect on the success of policy implementations (Dreher et al. 2009), the significance of the appointment channel with regard to the characteristics of the appointee calls for attention.

In general, since central banks are outstandingly independent institutions, evaluating the influence of politics on monetary policy requires the identification of transmission channels between politics and the central bank. Accordingly, typically three channels are identified (e.g. Belke/Potrafke 2012: 1128): Central Bank appointments; direct signalling of the government's desired policies and the bashing and reorganization threats of respective governments. However, regarding the outstanding independence of the ECB, governments lose some of these channels in context of the EMU. They lose the possibility to threaten the Central Bank because changes of the ECB's mandate require unanimity among all member states of the European Union. Further, national policy makers room for fiscal policies is very restricted because of agreements such as the Stability and Growth Pact and the Fiscal Compact. Also, the Treaty forbids any political influence on the policy making of the ECB. Thus, in context of EMU, one of the main channels for political influence on the central bank is assumed to be the selection of the policy makers themselves.

Thus, to approach the politics of monetary policy in the EMU, this paper considers the following questions: 1. Why Central Bankers are appointed in the European Monetary Union? 2. What factors determine the appointment of central bankers? 3.

How these factors determine the appointment process? To approach these questions and in line with research on the selection of policy makers in other fields, structural and strategic factors for appointments, such as constitutional and institutional constraints, party political considerations and strategic issues should be reflected theoretically (e.g. Dowding/Dumont 2009).

### 3. Theoretical background and hypothesis

#### *Individual characteristics of Central Bankers*

In line with research on individual characteristics of policy makers, studies typically highlight characteristics such as partisanship of the policy-maker (Ensser-Jedanestik 2014) and their educational and occupational backgrounds (Hallerberg/Wehner 2012; Dreher et al 2009). By linking individual aspects with the institutional level, Christopher Adolph (2013) develops a career path theory to monetary policy, referring to attributes of the individual central banker and its relevance for monetary policy decisions. He finds that the individual career path of central bankers can provide statistically sufficient information on the behavior of these agents. Theoretically, career paths matter because of two mechanisms: socialization and the revolving

door phenomenon. Socialization basically refers to the assumption that workplaces shape attitudes, as several organization studies and public administration scholars found. There is no reason to believe that banking is an exception. On the contrary, Ho's (2009) ethnographic study of Wall Street investment banks suggests that the intense work environment comprehensively reshapes employees' attitudes, values, and economic ideas. The revolving door phenomenon points to the fact that policy makers may choose career paths outside the central bank after their time in office. Thus, they could have incentives to choose monetary policies in order to signal future employers their *competence*.

Career-theory suggests that central banker career-types are associated with different preferences for the balance of inflation, growth and employment. Adolph finds significant support for stable effects of different career types on monetary policy and inflation (Adolph 2013: 70pp; 116 pp). His findings suggest that career background in the finance ministry leads to statistically more hawkish approaches on monetary policy and inflation, and that career history within the central bank leads to statistically significant more dovish preferences for monetary policy and inflation. Thus, the author proposes two inflation-reducing career types (Finance and Finance Ministry), two neutral career types (Economics and Business) and two inflation-increasing career types (Government and Central Bank staff). These findings allow calculating a single value as a proxy for central banker career conservatism, by subtracting the normalized relative share of experience in inflation-increasing job-types from the share of experience in inflation reducing ones. This operation gives a number between -1 (all liberal career experience) and 1 (all "conservative" career experience), that can be used for comparison and statistical operations.<sup>1</sup>

### *Partisan appointment approach*

However, besides the individual factors, the ideas and interest of the appointer should be considered. Partisanship is traditionally assumed to be a reasonable variable in this context (Hibbs 1977; Alesina 1987; for summary see e.g. Belke 1996). Partisan approaches are based on the assumption that politicians provide policies that reflect the preferences of their clienteles. By contrast, these approaches differ from the political business cycle literature, that suggest politicians implementing the same expansionary economic policies in the periods before elections, regardless their respective party colour (Alesina 1997). In partisan approaches, leftist parties appeal more to the labour base and promote expansionary policies, whereas right-wing parties appeal more to capital owners and therefore promote more inflation reducing policies.<sup>2</sup> These theoretical considerations allow transformation to following two hypotheses for central banker appointment in EMU:

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<sup>1</sup> Also, Göhlmann and Vaubel 2007 find that former central bank staff has significantly lower inflation preferences than former politicians.

<sup>2</sup> Extensions of classical partisan approaches in form of rational partisan approaches ad wage rigidities and an environment of electoral uncertainty to the model, leading to expectations upward (downward) postelection blips in unemployment for rightwing (leftwing) governments (Belke/Potrafke 2012: 1127).

Hypothesis 1a: Social-democratic governments appoint more likely career types that prefer employment more than (low) inflation (e.g. central bankers from government bureaucracy or central bank staff).

Hypothesis 1b: Conservative-governments appoint more likely career that prefer (low) inflation more than employment (e.g. central bankers from finance or the finance ministry).<sup>3</sup>

Since monetary policy in EMU is more difficult being attributed to national partisan considerations, these effects are expected to be present on the European level and in domestic appointments in EMU, despite some research suggests that leftist governments might be tempted to push market oriented policies by delegating monetary policy to conservative central bankers (e.g. Belke/Potrafke 2012).

#### *Political economic considerations in EMU*

However, whereas research on partisanship suggests different appointment preferences along party-families with regard to individual characteristics of the respective central bankers on the national level (Hallerberg /Wehner 2012; Belke/Potrafke 2012; Ennser-Jedannistik 2014), evidence points to the importance of national considerations on the European level. One example is the informal rule on nationality for appointments of ECB Executive Board Members. Accordingly, the four biggest Economies of the Eurozone have a permanent seat within the Board of ECB. For instance, to allow the appointment of the Italian Central Bank Governor Mario Draghi for Presidency of the ECB, the other Italian Board member, Lorenzo Bini-Smaghi, had to resign and give way to Benoît Cœuré, securing French representation on the Board after the end of the period of Jean-Claude Trichet.

Regarding the national level, research suggests that member states of the EMU traditionally vary in their approach to institutionalize a special monetary regime. These differences are explained by the socioeconomic factors of their political economies such as the power to form coalitions to support a special type of monetary regime among relevant actors (Quaglia 2005), as well as the institutional settings of the political economy (Hall/Franzese 1998) such as the different macroeconomic growth models (Hall 2012). According to Peter Hall (2014), members of the Eurozone could ideal-typically be ordered according to their type of capitalism (referring to their institutional setting, meaning their growth model and the degree of coordination of the industrial relations for wage-setting, among others are the power of shareholder, the dispersion of control in corporate governance, the size of the stock market, the level of wage coordination, labor turnover, and the degree of wage coordination, see Hall/Gingrich 2009). Within EMU, typically Austria, Belgium, Germany, Netherlands count as so called Coordinated Market Economies (CME) and France, Greece, Ireland, Portugal Italy and Spain to the Mixed-Market Economies (MME). Because they are less able to adjust to the one-size-fits-all monetary regime as it is institutionalized in the EMU, economies with a low degree of coordination in industrial relations and those with demand-led growth models (MMEs) are expected to struggle more in EMU (Franzese 2002: 199 pp). Thus, especially

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economies not considered to be among the CMEs should have an interest in appointing central bank governors in EMU to politically influence the monetary policy of the ECB. Thus:

Hypothesis 2: Countries with less coordinated political economies are expected to bargain *harder* for central banker appointment.

However, since CMEs are expected to be structurally advantaged in the monetary union and since they should prefer more conservative central banker types supporting their own macroeconomic growth models, in times of crisis central bank boards are expected to become more conservative.

Hypothesis 3: In times of crisis, the central bank board are expected to comprise more conservative career types.

#### 4. Data and Method

Approaches on European politics of monetary policy have to deal with some methodological challenges, for instance allows the focus on the Executive Board of the ECB the observation of only 19 cases. Thus, this study is meant to be an explorative study, covering data for all members of the Executive Board of the ECB since its establishment in 1998. Providing first insights, the approach is planned to be extended on all members of the Governing Council of the ECB (national central bank governors, additionally 62 persons) and all board members of national central banks since 1998 (approx. 350 persons). This empirical strategy is taken because the appointments to the Executive Board represent the most significant cases on the European level as well as because research underlines the outstanding voting power of the Executive Board within the General Council (Belke/Styczynska 2006).

To explore the appointments of European central bankers, the study aims to combine structural with individual aspects of the respective cases. Accordingly, empirical data cover variables on the micro (the individual central banker) as well as the macro-level (structural issues of appointment) for each case. The data were generated using publicly available sources such as Central Bank publications, reports of public institutions involved in the appointment process, such as the reports of the ECON Committee of the European Parliament, as well as individual homepages and different media sources for cross-checking. Further expert interviews with ECB-staff and one former member of ECB Board were conducted thickening the methodological strategy and the empirical evidence.

On the micro-level, the following data are generated for each case: the central bankers position(s) (e.g. if he was governor, president, vice president or member of the executive Board), nationality and his “host” central bank (not all central bankers are appointed in their home country), month and year of appointment(s), year of office leave, year of birth, gender, highest degree and respective university, and party affiliation. Party affiliation is of course a somehow challenging variable, and is defined as follows: having held public office (e.g. president, prime minister, minister, junior minister, member of parliament) or party office (e.g. party leader, party secretary), having been a member of a party, having worked aside a politician of a party (typically as part of a ministers cabinet), or being depicted in media



records or historic accounts as being affiliated with a specific party. Of course, the latter criterion is potentially problematic, however in the actual data set no such case is included.<sup>4</sup>

On the macro-level, the appointing institution is noted (in case of the ECB Executive Board Members this is of course the Council), the national parties in government by the time of appointment to European level and if it was a single majority or a coalition government, as well as the first appointing party for a job at the national central bank board. Additionally, data on the economic and institutional structure of the country of origin is considered (i.e. the degree of coordination of the wage setting institutions) as well as macroeconomic data like unemployment, the terms of trade and domestic inflation and growth rates. These data derive from public available sources such as Eurostat and the OECD. However, for this paper basically data for partisanship is considered.

To account for the career path experience as the proxy for career conservatism, a single number is calculated as follows<sup>5</sup>: To account for the career patterns of central bankers and distinguish between different types, the duration of the central bankers career in one of the following job types is calculated: Financial Industry (Private financial industry jobs), Government (Bureaucrats outside the central bank and finance ministry), finance ministry, central bank, economics (academic economics), business (private sector, excluding financial industry), Labor, and other (all other, typically international organization, labor union employees etc). All occupational experience falls exclusively into one category. Note that only full-time positions are considered. To account for the entire experience of a given central banker, the relative share of work experience in month is calculated and normalized (to indicate the percentage of experience in a given category relative to entire career experience). By subtracting the normalized relative share of experience in inflation-increasing job-types from the inflation reducing ones, a number between -1 (all liberal career experience) and 1 (all “conservative” career experience) is calculated, that can be used for comparison as well as statistical analysis.

## 5. Empirical Evidence

Although central bankers are typically expected being appointed by the government, head of state or the parliament (Belke/Potrafke 2012: 1128), countries vary among institutional structures of actual central banker appointment. On the one hand, this is due to different governance structures of the central banks. Whereas some countries prefer classical one-tier-governance structures similar to that of listed corporations in Anglo-American countries, typically having a strong executive board headed by a strong CEO or governor (e.g. England, Germany, Ireland), other countries prefer classically two-tier structures for central bank governance, having the executive board being controlled by an supervisory board with considerable competences, such as fixing contracts, approving decisions and even appointment of (some) executive board members (e.g. Spain and Belgium).

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<sup>4</sup> The evaluation of party-affiliation is in line with similar research studies on central bankers, as for example in Ennsner-Jedannistik 2014.

<sup>5</sup> Thereby orienting close at Adolph's (2013: 88) approach.

To provide an example, the two-tier structure of the National Bank of Belgium separates the organization's governance into a Board of Directors that is responsible for the management of the organization, similar to an executive board of listed corporations. However, besides the Board a council of regency is established, that has besides supervisory tasks the responsibility to propose the candidates of the Board that are elected by the king. Thus, the Council of Regency has actual appointment powers. Since the Council of Regency comprises five "regents" appointed by the finance ministry, two members of labor organizations and three members of industry and commerce, respectively from agriculture and from small and medium-sized enterprises and traders, appointments to the Board represent broader interests, especially compared to appointments only done by a single entity (typically the finance ministry or the government). On the other hand, also federal constituencies could support different appointment structures, as the German example illustrates. Half of the Board of the Deutsche Bundesbank is elected by the federal government and the other half by the German Länder representatives. Research suggests, that this federal structure allows partisan influence on monetary policy by using the appointment channel (Lohmann 1998).

In case of the ECB, the main decision making bodies are the executive Board of the ECB and the Governing Council. The Governing Councils comprises the governors of all national central banks of the EMU as well as the members of the EC. Since the national governors are appointed according to their respective national constituencies, the appointment of the Executive Board, including the President of the ECB, is a matter of European affairs. The Executive Board comprises the President, the Vice-President and four other members. According to the Treaty and the Statutes of the ECB and the ESCB (Art. 11), the members shall perform their duties on a full-time basis. No member shall engage in any occupation, their term of office shall be eight years and shall not be renewable, and only nationals of Member States may be members of the Executive Board. According to the Treaty (Art. 283.2), the President, the Vice-President and the other members of the Executive Board shall be appointed by the European Council, acting by a qualified majority, from among persons of recognized standing and professional experience in monetary or banking matters, on a recommendation from the Council, after it has consulted the European Parliament and the Governing Council of the European Central Bank. Thus, it is actually the national governments appointing members of the Executive Board (and the Governing Council) of the ECB.

Regarding the appointment process, the Treaty allows for some discretion while establishing also restrictions, for instance when stating that the Board-members have to be chosen "among persons of recognized standing and professional experience in monetary or banking matters". This statement refers to the career path and occupational background of the Central Bankers, thus corresponding with the theoretical focus of this paper. Further, evidence for the relevance of career factors is provided in the Annexes of the reports of the ECON-committee of the European Parliament, as the relevant committee for drafting the report for the recommendation of the EP on the nomination of the ECB-Executive Board candidates. Annex 1 typically contains the Curriculum Vitae of the candidate with a focus on professional experience. Annex 2 contains the answers to questionnaire of the committee of the candidate, showing that the first of the four question blocks asks for personal and professional

background of the respective candidate, indicating the relevance of these factors for appointment considerations on the European level.

On the individual level, the empirical data suggest the average member of the Executive Board of the European Central Bank to be 55 years old by time of appointment, being male (there have been only two women among the Executive Board members) and holding a university degree in economics, most likely a PhD (only three persons did not hold a PhD in economics).

Considering the career patterns of the respective central bankers by the time of their appointment to the Executive Board underlines that the greatest average share of career experience of the central bankers is in central banking (40 percent), while experience in the finance ministry accounts for the second largest share (27 percent). While central bankers have on average some experience in teaching economics (16 percent) and within government bureaucracies (8 percent), only few experience in the financial industry (4 percent) and other job types (3 percent) is reported. Nearly none of the ECB-Executive Board members had experience in the private sector outside the financial industry (0.6 percent), and literally none had any working experience in a labour organizations (see chart 1).

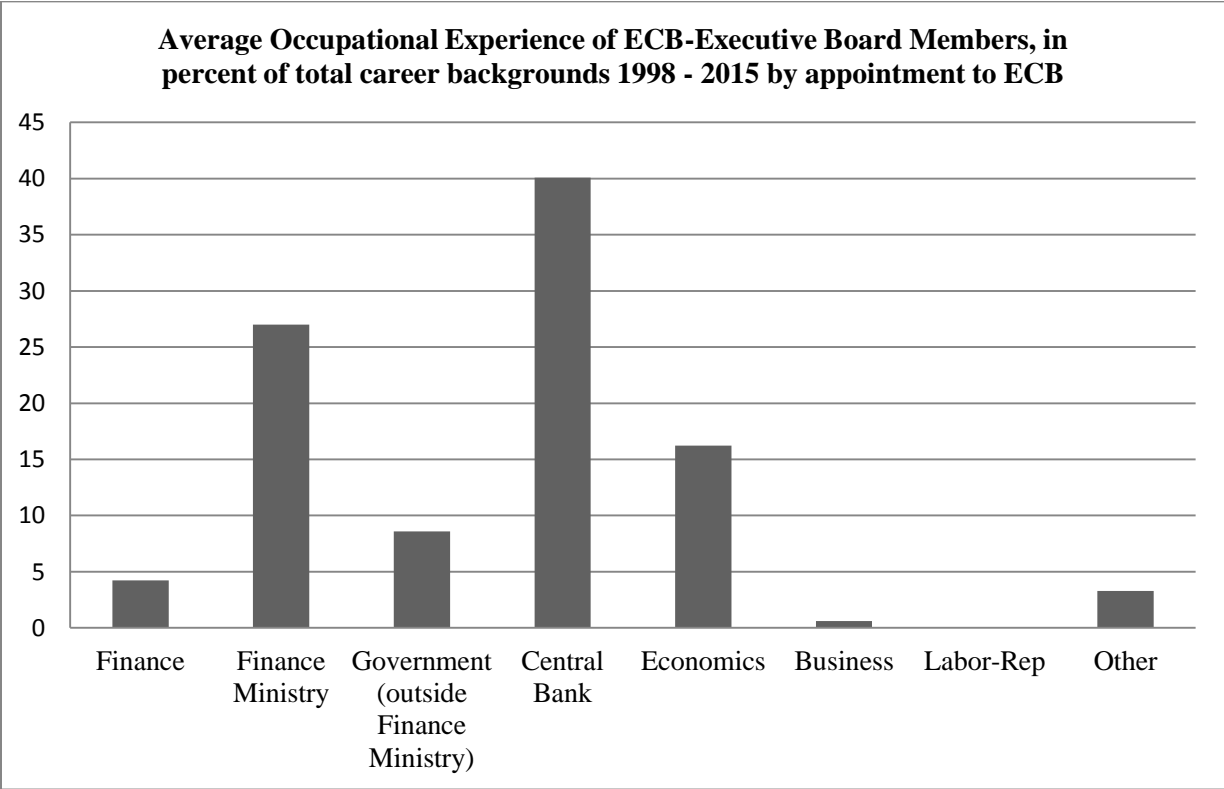


Chart 1: Average Occupational Experience of ECB-Executive Board Members, in percent of total career backgrounds 1998 - 2015 by appointment to ECB. Source: own data and presentation.

These results are very much in line with expectations, given the fact that appointments to the ECB are expected to be highly political, thus providing incentives for European politicians transferring these tasks to experienced national policy makers in national political institutions. Accordingly, most of the individuals considered have served as governors or in the governing board of their respective national central banks. However, the chart illustrates also that the

institutional appointment structure of the EMU privileges governmental interests over the ones of other interest groups, for instance that of labor or industry organizations. In contrast, only experience in the financial industry seems to have a positive effect for appointment to the ECB's Executive Board.

Given the very independent and on price stability focused monetarist mandate of the ECB, this finding supports the assumption that interests of labor is somehow underrepresented in European monetary policy making. Since the actors involved in wage-setting have influence on inflation through the wage-price channel, their none-representation in terms of work-experience among ECB-Executive Board members is, even though expected, an interesting finding. This is attributed to the institutional architecture of the EMU and the institutionalized governance structure of the ECB. However, as the discussed Belgian example could illustrate, different governance structures of central banks could principally support the integration of broader interest Groups in monetary policy making.

However, with regard to the above theoretically and of Adolph (2013) empirically identified job-types, the illustrated findings on Executive Board membership seem to present a rather balanced picture. As dovish expected career experience account for 48 percent (experience in the central bank and government bureaucracies), while as hawkish expected career experience accounts for 31 percent (experience in the finance ministry and in finance) of total career experience among board members. This observation needs to be qualified in two ways: first, experience in central banks covers also experience in central banks that are considered as being traditionally rather hawkish, such as the Deutsche Bundesbank. This should be controlled in further analysis using larger data sets and respective analytical methods (e.g. regressions). Second, when considering the last job the respective central banker has hold before first (national) appointment (chart 2), the dominance of as hawkish considered career types, representing for 58 percent, compared to experience in dovish career types, representing 21 percent, gets more distinct.

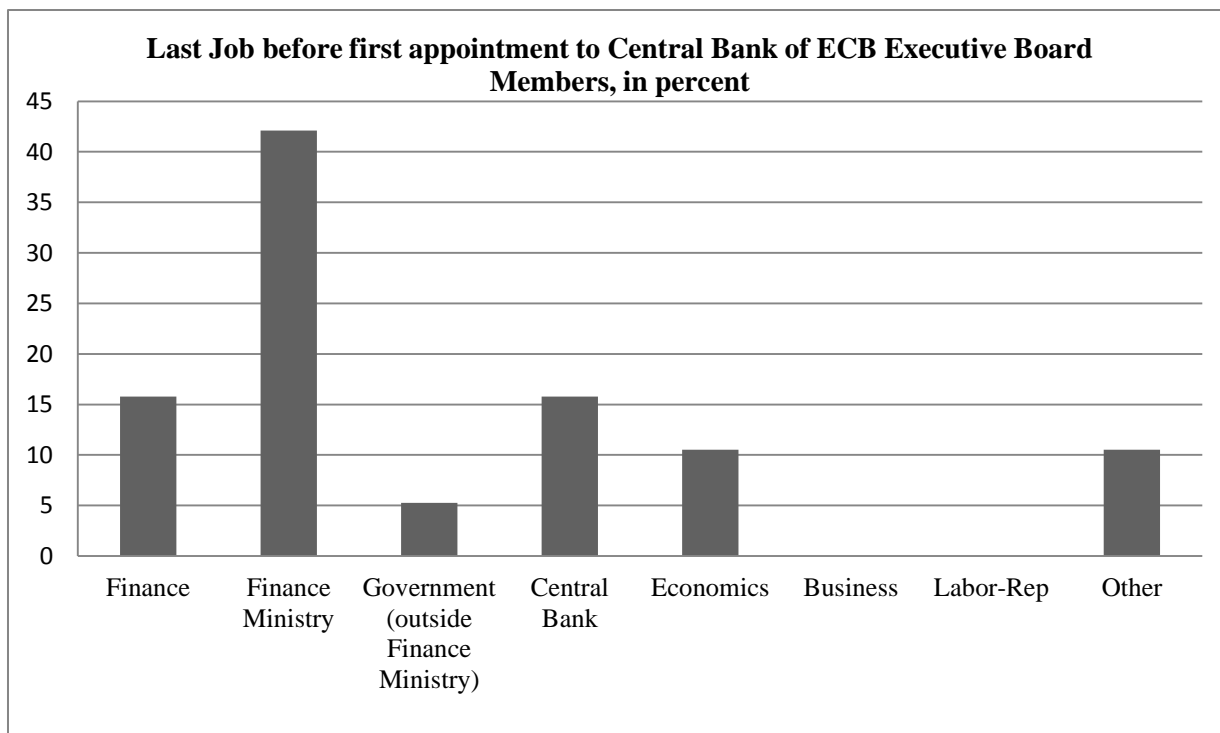


Chart 2: Last Job before first appointment to Central Bank of ECB Executive Board Members, in percent. Source: own data and presentation.

Considering the recorded party affiliation of Executive Board Members provides a picture that is twofold. As chart 3 illustrates, the majority of 52 percent of board members do not have affiliation to any party, neither to the parties considered to be more right-wing or left-wing. However, this number indicates that 47 percent of the individuals have party affiliation. Among these, 37 percent of central bankers have party affiliation with conservative parties and 11 percent of central bankers have party affiliation with social democratic parties. However, given the larger share of appointees of conservative parties, due to small-N of Executive Board members, simple statistical analyses suggest no partisan preferences for appointments of non-partisan central bankers along party families. However, stronger results are expected using a larger-N analysis for the EMU, considering all Governing Board Members of national central banks while controlling for national-institutional and macroeconomic patterns.

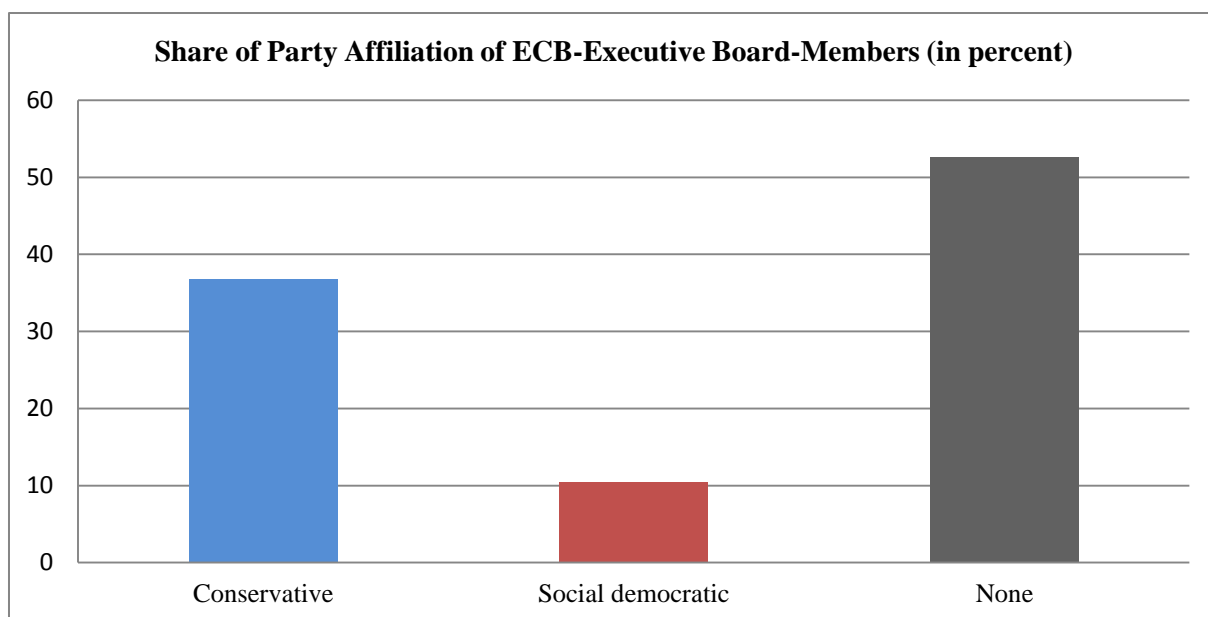


Chart 3: Share of Party Affiliation of ECB-Executive Board-Members (in percent). Source: own data and presentation.

However, partisan considerations play a strong role for appointments to the Executive Board of the ECB, given the fact that the relative share of appointees to the Board is comparatively very balanced over time, as the annualised share of party appointees within the ECB Executive Board illustrates (chart 3). Especially until 2011/2012, the Board is relatively balanced. Only in 2002 und 2004, a majority of the Board members has been appointed by Social democratic parties (as the national governments appointing them). For both occasions, the directly following appointment balanced the party share respectively. However, since 2011/2012 a majority of the Board members is appointed by conservative parties. This distribution will remain at least until 2019, when Mario Draghi and Peter Praet have to leave office, being the first conservative appointees to be replaced (Vítor Constâncio has to resign in 2018, however, he is member of the Partido Socialista and typically attributed to be a monetary dove). This result is in line with theoretical predictions, since during financial crises a more conservative Board is expected.

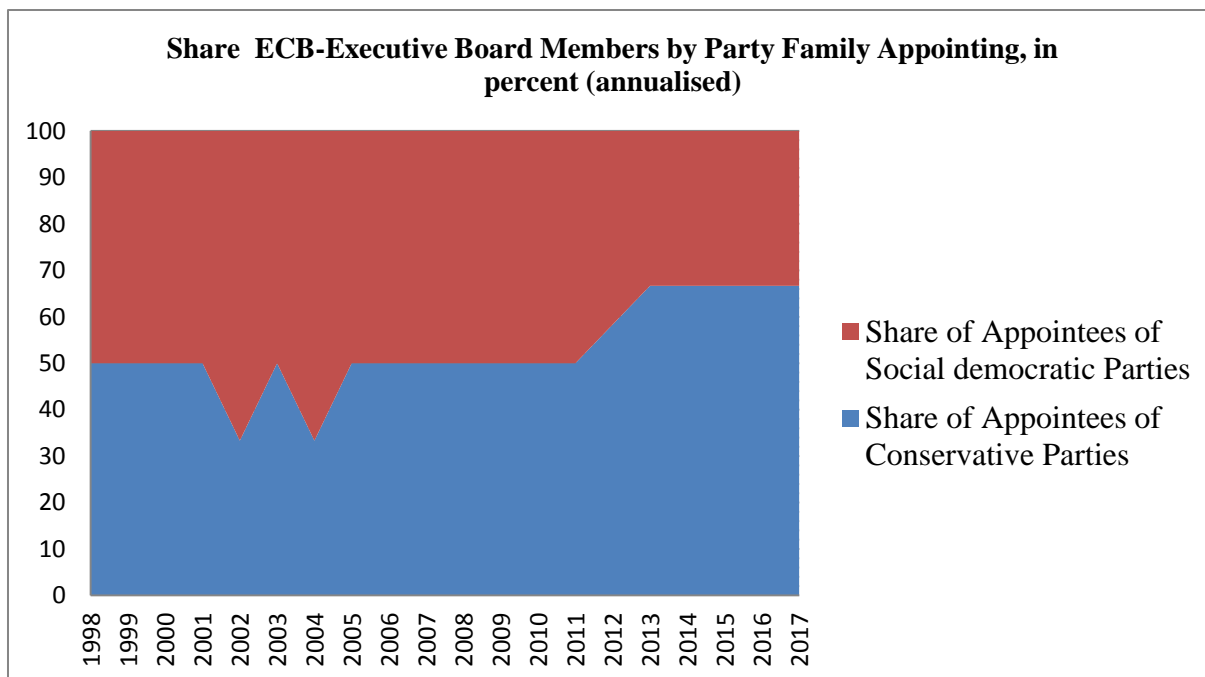


Chart 4: Share ECB-Executive Board Members by Party Family Appointing, in percent. Source: own data and presentation.

To consider the career-type composition of the Executive Board, the median career type is calculated. Since career types are compulsory data, taking the average would be methodologically problematic. Further, research on monetary committee decisions points to the median voter as best proxy for committee position, so that calculating the median central banker career conservatism seems to fit best with regard to existing research on committee composition and decisions (e.g. Belke/Styczynska 2006; Bénassy-Quéré 2009; Hix 2010).

Calculating the median central banker conservatism (CBCC) of the ECB Executive Board (ranging from -1, all liberal experience to 1, all conservative experience), shows a twofold development. In the period between 2001 and 2005, the median career conservatism shrinks, reaching a low in 2004. However, between 2005 and 2010 CBCC stays on a similar level as in the period before 2001, and rises again in 2010, reaching a top in 2013 while staying on a relatively high level afterwards. Since the development of CBCC is very much in line with the relative share of party appointees in the Executive Board (chart 4), this finding suggests that parties have been able to shift the degree of conservatism of the Executive Board by increasing the share of conservative appointees. Further, this observation is very much in line with the expectation that the median degree of conservatism will rise in times of financial crisis. However, the effects of the two mechanisms appear to be interactive, interpreting their marginal effects is challenging. Thus, further research should conduct qualitative research such as case studies accompanying larger-N analysis.

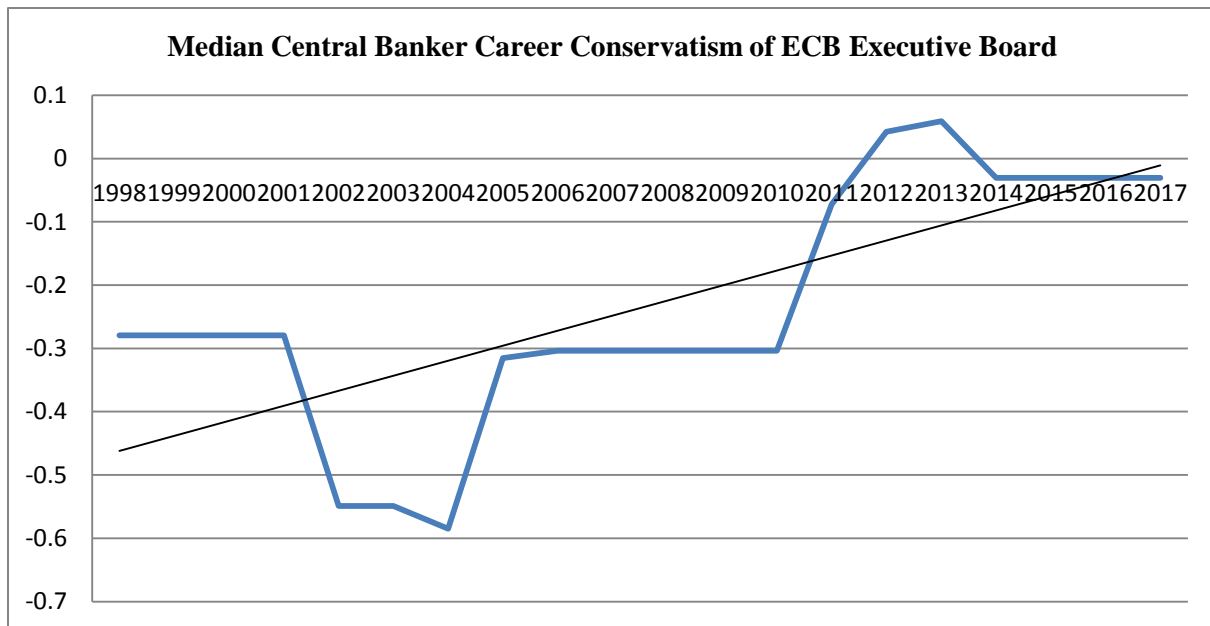


Chart 5: Median Central Banker Career Conservatism of ECB Executive Board. Source: own data and presentation.

To illustrate the causal mechanism between partisan appointment of ECB Executive Board members and the individual characteristics of the respective central bankers, a few suggestive examples can briefly be discussed. The appointment of Vítor Constâncio in 2010 was commented by calling for a dove at the ECB’s Executive Board. Because he is member of a relatively left-wing party, and he has served most of his career at the Portuguese central bank and has been an active politician, this attribution was relatively clear and was communicated referring to these arguments in the appointment process. Further, since his country of origin is associated as being among the mixed- and not among the coordinated market economies, the support of the French, Italian and Spanish government for his appointment, as media coverage suggests, indicates the relevance of the political economic argument. Similar observation can be taken considering the three even more popular appointments of presidency of the ECB, Duisenberg, Trichet, and Draghi. In their appointments, nationality was always a strong issue. This observation points towards the assumption that career effects are stronger for appointments at the national level, whereas on the European level nationality, the macroeconomic considerations such as the type of capitalism of the appointees home country and bargaining power matters.

## 6. Summary, Discussion and Outlook

The paper discussed the literature on the politics of monetary policy and developed a theoretical framework to approach the topic in a political science perspective with regard to the somehow special case of the EMU. By considering ideas, interests and institutions, the study proposes a mixed-methods research design allowing further research on the topic by combining variables on the micro level (the individual central banker), the meso-level, the appointing actors, and the macro level, the institutional structures and the macroeconomic environment of EMU.



To illustrate possible generalization, four hypotheses have been developed according to the discussed theoretical framework and illustrated by a unique data set, covering micro-level variables for all ECB-Executive Board members since its establishment. Despite the fact that the hypothesis call for further analytical consideration, evidence suggests reasonability. According to the presented analysis, evidence suggests that Social democratic governments appoint more likely career types that focus more an employment than on inflation (Hypothesis 1a), as well as that conservative-governments appoint more likely career types that focus more on low inflation than on growth and employment (Hypothesis 1b). According to presented evidence, political economies that are typically not among the Coordinated Marked Economies (CMEs) are expected to have stronger interest in influencing monetary policy by using the appointment channel, and that they bargain al lot for the appointment of their candidates (Hypothesis 2). Further, since typical mixed-marked-economies (MMEs) are expected to be structurally disadvantaged in context of the EMU, in times of crisis, the Central Bank Board was expected to comprise more conservative career types (Hypothesis 3). This assumption could be approved regarding the presented data on the career-background and the appointing parties of ECB-Board members. A first explorative interview with one former ECB-Board member seems confirms these suggestions.

However, research should be expanded to gain greater analytical leverage regarding the proposed findings allowing presenting a broader picture of the structural issues within the EMU, such as national variance in appointments. Further generalization of the findings should provide insights into broader issues of political economy of the EMU. Therefore, extension of the presented framework is proposed in two directions: On the one hand, data for more monetary-policy makers and their appointment should be considered, thereby taking into account all (former) member of the general council of the ECB (81 individuals) as well as all members of the boards of national central banks since establishment of the EMU (approx. 350 individuals). On the other hand, methodology should be enhanced since a larger data set will allow for statistical testing of the hypothesis and more systematic case selection. Thereby, the causal mechanism between national (and) partisan considerations should be structurally examined allowing further insights to European politics of monetary policy and to approach the politics of European bureaucratic policy making in more general.

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